

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



CANCRETE™
Environmental Solutions Inc.

*To ensure now and in the future,
the development of responsible waste management practices
for a better environment and the well-being of future generations.*

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MESSAGE FROM THE CHAIRMAN

We, the management and staff of CANCRETE™ Environmental Solutions Inc., believe that our generation must deal responsibly with the problems of the environment and not pass them on to our children.



CANCRETE achieved many significant successes during 1996. Our exclusive license rights for Depocrete™ specialty binders and a solid, comprehensive business plan enabled CANCRETE to raise the necessary capital, meet listing requirements and begin trading on the Alberta Stock Exchange.

We were successful in demonstrating the effectiveness of the Depocrete™ technology in December of 1996. The C.E.D.A.-Reactor project in Edmonton, Alberta was an on-site treatment of toxic waste and recycling of the treated product as construction material.

Your company has now completed the foundations of operational infrastructure. Fiscal 1997 will be an important year with the commencement of commercial operations, further developmental growth and market positioning.

We have entered into a Strategic Alliance with Inland Construction for the material handling and construction elements for field operations. Also, we have finalized the key management position with the appointment of Art Froese as President and CEO.

I have every confidence that Mr. Froese will lead a dedicated management and support team in establishing CANCRETE as a strong market player in the environmental services industry. Our ability to treat a wide range of toxins with value-added recycling opportunities are attracting quality prospects. We have built CANCRETE on a strong foundation and are now well positioned to commence full commercial operations.

I want to personally thank the management and staff of CANCRETE for their hard work and dedication during our developmental phase. I also want to express my deep appreciation to the investment brokers and, particularly, the shareholders of our company for their continuing confidence and support.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. Hogan".

William J. Hogan
Chairman
CANCRETE™ Environmental Solutions Inc.

MESSAGE FROM THE PRESIDENT

My six weeks with CANCRETE have presented a steep learning curve and the opportunity to make some noteworthy accomplishments.



A joint visit was made to Germany with key Inland Cement executives to observe first hand the laboratory, marketing and field operations of Heidelberger Zement's Depocrete™ technology.

A review of our laboratory and field operation requirements has lead to important changes in methods affecting our laboratory, sourcing of materials, quality control and field protocols.

Through an enhancement to our licensing agreement with Heidelberger Zement, the Depocrete™ technology is exclusive to CANCRETE in Canada.

We have established clear and responsible, working relations with key personnel of Alberta Environment Protection.

Our marketing is focused specifically on potential jobs within the southern Alberta area that can be accomplished with the use of equipment currently at our disposal. We are in the process of developing binder design for five different sites.

Shareholders should be aware that the sales process is usually long in our business and patience is required to finalize contracts. I am confident that working in conjunction with our partners at Inland, we will be successful in pursuit of our corporate objectives and the challenges of the environmental industry.

Sincerely,

A handwritten signature in black ink, appearing to read "Art Froese".

Art Froese
President & Chief Executive Officer
CANCRETE™ Environmental Solutions Inc.

CORPORATE PROFILE

CANCRETE™ Environmental Solutions Inc.

CANCRETE is a hazardous waste marketing and site remediation company headquartered in Calgary, Alberta. It is CANCRETE's mission to ensure the development and implementation of responsible waste management practices for a better environment and the well being of future generations.

CANCRETE owns the exclusive licensing and marketing rights for North America for all of the environmental technologies developed by Heidelberger Zement AG of Germany. CANCRETE was established expressly to bring these technologies to the remediation market in North America.

The company offers cost-effective, technically viable solutions in the areas of contaminated real estate, toxic waste streams and mitigating environmental impacts.

The CANCRETE Process, using Depocrete™ specialty binders, neutralizes hazardous materials rendering them non-toxic. The treated material, now harmless, can be processed and adapted for industrial recycling applications such as road bed, flooring and filler.

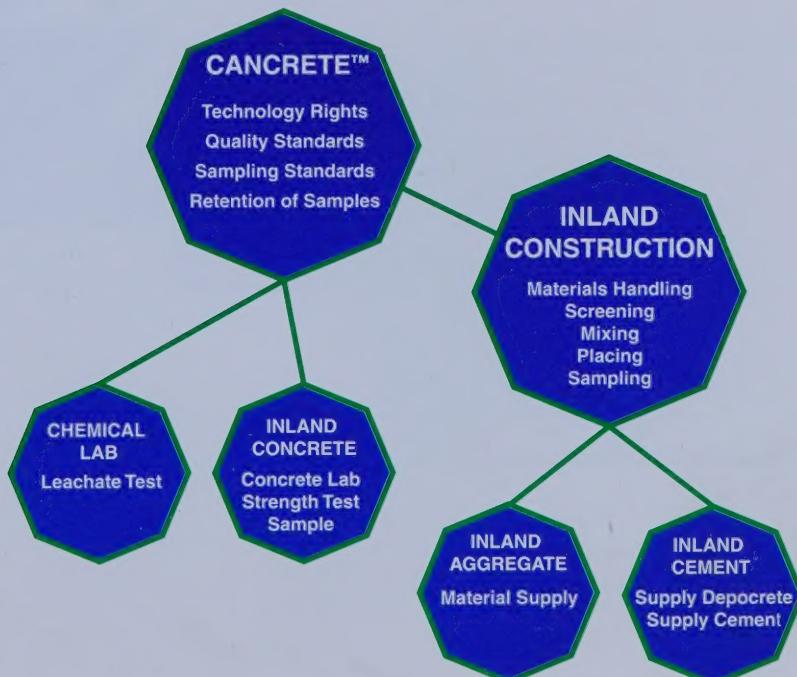
Inland Construction Limited

In February of 1997, CANCRETE announced their Strategic Alliance with Inland Construction Limited, an Alberta based civil construction company and member of the CBR group of companies. Inland Construction is considered to be the premier material handling construction company in Alberta.

Inland specializes in earth movement, municipal and commercial road and utility construction systems, manufacturing/recycling of various asphalt concrete products, airport runways and highway construction and maintenance operations. Inland's material handling and construction expertise is an ideal fit with the CANCRETE Process.

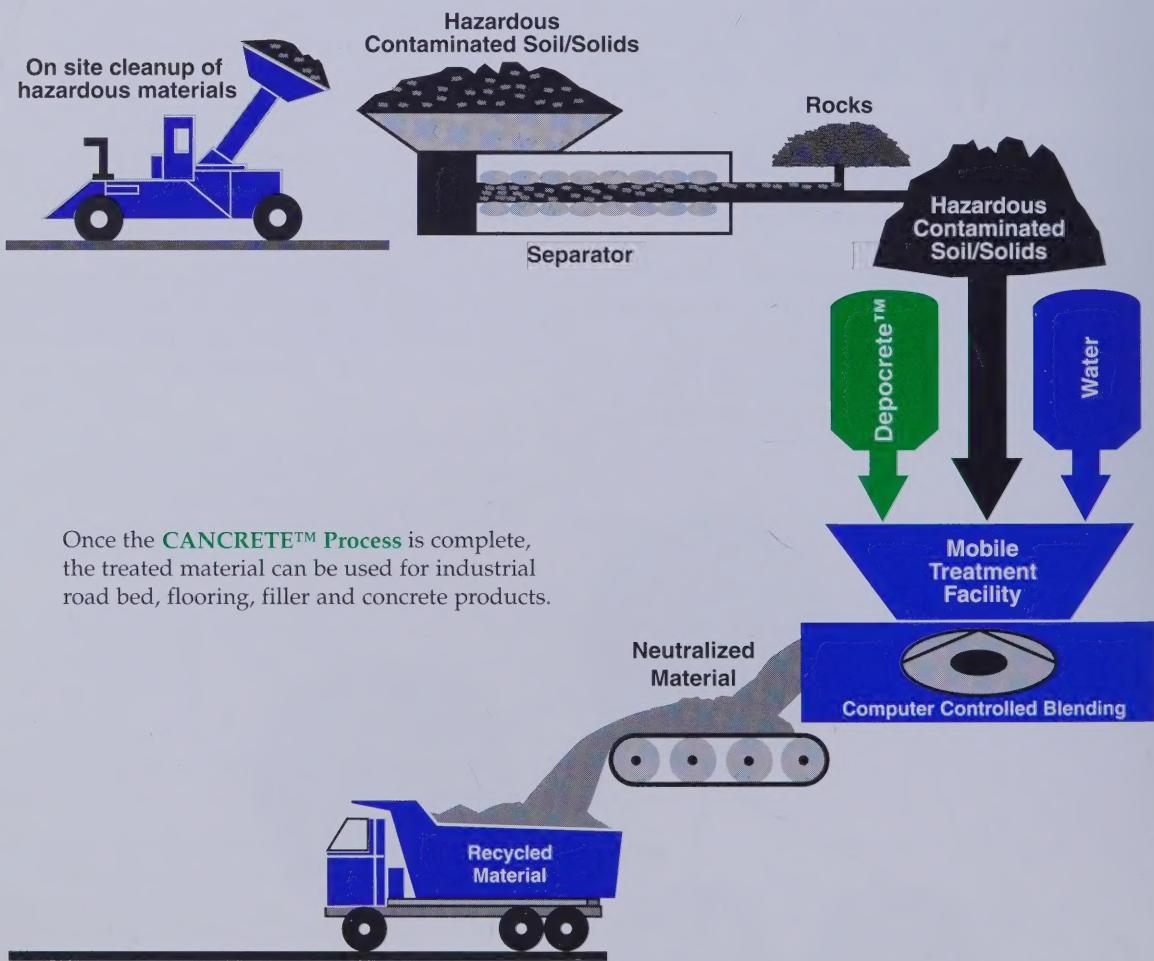
Inland will be responsible for the supply and mixing of the Depocrete™ materials for the CANCRETE Process and related quality control.

The alliance of CANCRETE and Inland creates a powerful and cost effective solution to North America's environmental issues concerning toxic sites and hazardous real estate.



THE CANCRETE™ PROCESS - MATERIAL HANDLING • TREATMENT • RECYCLING

Once the CANCRETE Process using Depocrete™ technology is complete, the treated material may be used for numerous industrial applications including flooring, filler, and road bed. CANCRETE solutions are economically feasible for the advantage of industries that have produced, are producing or storing hazardous waste.



SCIENTIFIC EXPLANATION

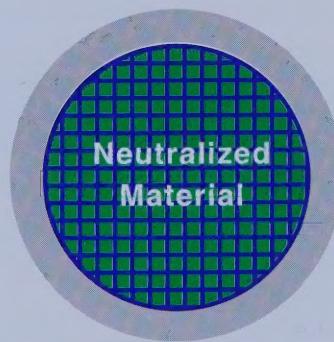
The CANCRETE Process using Depocrete™ technology creates a neutralized material change to the toxic material, rendering it inert and non-hazardous.



Contaminated
material with
hazardous
wastes

The Depocrete™
specialty binder
uses natural
materials that
bind and encap-
sulate to neutral-
ize the contami-
nate

This creates an
encapsulated
cover over the
contaminant



FINISHED PRODUCT

During the same process, the Depocrete™ specialty binder also solidifies the contaminated material into a concrete product rendering it inert and non-hazardous

FIELD RESULTS

In December of 1996, CANCRETE undertook its first Alberta toxic waste treatment project.

Using Depocrete™ specialty binder, BTEX contaminated soil and sludge was successfully treated with the CANCRETE Process. BTEX, a waste by-product of downstream petrochemical processing is considered one of the most toxic waste groups. The contaminate BTEX is comprised of Benzene, Toluene, Ethyl-benzene and Xylene.

Toxins	Before CANCRETE™	Alberta Standards	After CANCRETE™
Benzene	2.0 ppm	0.5	0.001 ppm
Toluene	30.0	0.5	0.023
Ethyl - Benzene	19.0	0.5	0.023
Xylene	339.0	0.5	0.190
Final Average BTEX Leachate 0.059			

In addition to these significant results, the treated BTEX was recycled as flooring in an industrial garage site at CEDA-Reactor Ltd. in Edmonton, Alberta.

Field results of Canadian demonstration projects illustrate the unparalleled performance of the CANCRETE Process using the Depocrete™ technology.

Projects	Toxins	Before CANCRETE™	Alberta Standards	After CANCRETE™
Canal Street Scrap Metal Yard Heavy Metal Soil	Lead	560.2 ppm	5.0 ppm	0.425 ppm
	Copper	140.5	100.0	0.145
	Chromium	42.0	5.0	0.010
Sivaco Project Nail Production Plant Sludges & Debris	Zinc (phI)	4,525.0	120.0	0.61
	Zinc (phII)	490.0	120.0	<0.10
	Hydrocarbon	2,593.0	1000.0	1.38
D.O.T. N.S. Heavy Metal Sand	Lead	15 - 25	5.0	.29

A - Z SOLUTIONS

The CANCRETE Process using Depocrete™ has treated and cured the following toxins

- A** anthenes • anthracenes • antimony • acenephthalene • arsenic • analine • atrazine • acetone • acetophenone • acrylamide • ammonia • acrylic resins • aluminum • pentaerythritol acrylate • aromatic hydrocarbons • ethyl amines • activated aluminum catalyst
- B** benzene • nitrobenzene • dichlorobenzenes • binders (organic) • barium • chlorabenzene • dichlorobenzidine • boron • ethyl benzene • paint binders • bromide • bisulfides • bromonitrostyrene • 1- butanol
- C** chlorinated phenols • cresols • creosote • chorines • carbon tetrachloride • chloroform • hexavalent chromium • cyanide • caustic • chlorinated solvents • calcium • calcium carbonate • chloride • chlorobenzene • cadmium • o-chlorophenol • copper • carbamates • chlorinated hydrocarbons • methylene • chloride • zinc chromates • chlorinated HCs • sodium chromate • calcium oxide • calcium hydroxide • carbide lime slurry
- D** 2, 4-dichlorophenol • diphenylamine • dichlorobenzene • dichlorobenzidine • 1,4-dioxane
- E** explosives • ethyl benzene • 1,1,1-trichloroethane • epoxy resins • ethyl amine
- F** fluoranthrenes • formaldehyde
- G** organic gums
- H** hexachlorocyclopentadiene • sodium hydroxide • o-toluidine HCL • aromatic hydrocarbons • chlorinated HCs • magnesium hydroxide
- I** ignitable • corrosive and reactive waste products in the production of explosives • inorganic pigment and resins • iron • iron oxide
- K** methyl isobutyl ketone
- L** lead
- M** mercaptans • methylene chloride • methyl isobutyl ketone • manganese • methylene chloride • maleic acids • mercury • magnesium • methyl-bis-thiocyanate • metals • monochlorobenzene • methanol • magnesium hydroxide
- N** naphthalene • nitrobenzene • non-chlorinated solvents • norton • nitrophenol • nitrotoluene • nitrate
- O** organic pigments • organic binders • oils • o-toluidine HCL • organic gums • organic sulphur • o-chlorophenol • organophosphates • lead oxide • organic resins

P phenol • chlorinated phenols • pyrenes • pesticides • phosphorodithioc and phosphothioc acid ester • phorate • phenolic compounds • organic pigments • polymers • plasticizers • phenylenediamine • paint pigments • polyols • phosphates • phthalic acid • bis (2-ethylhexyl), phthalate • pentaerythritol acrylate • pulp mill effluents (chlorinated)

R organic resins

S solvents • sodium hydroxide • surfacants • sulfate • silver • sodium clays • organic sulfur • chlorinated solvents • sodium phosphate • sodium chromate sodium • sewage treatment plant sludges

T carbon tetrachloride • toluene • toxaphene • 2,4,6-trichlorophenol • thiourea, TBTO • TOC • o-toluidine HCL • pesticides • titanium dioxide • 1,1,1-trichloroethane

U urethane compounds • pigment and solvents

W waxes

X xylene

Z zinc

Field report statistics from the Nova Scotia Research Council confirm that the Depocrete™ technology provides results that far exceed government standards.

Metals	Before CANCRETE™ ppm	Alberta Standards ppm	After CANCRETE™ ppm
Arsenic	300.00	5.0	<0.005
Barium	220.00	100.0	24.30
Cadmium	10.10	1.0	<0.02
Chromium	79.80	5.0	<0.10
Copper	1,135.00	100.0	0.11
Mercury	1,085.00	0.2	<0.0005
Nickle	180.00	5.0	<.20
Lead	3,778.00	5.0	1.57
Zinc	4,495.00	500.0	1.36

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements included in this annual report of CANCRETE™ Environmental Solutions Inc. for the year ended December 31, 1996 are the responsibility of the management of the Corporation and have been approved by the Board of Directors. Management has prepared the financial statements in accordance with generally accepted accounting principles in Canada.

Management has developed and maintains a comprehensive system of internal controls, which provide assurance that transactions are recorded and executed in compliance with legislation and required authority, that assets are properly safeguarded, and that reliable financial records are maintained.

The independent chartered accounting firm of Coopers & Lybrand have been appointed by the shareholders of the Company to examine the financial statements and have expressed an opinion thereon. Their report is included with the financial statements.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheet of Concrete Environmental Solutions Inc. as at December 31, 1996 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The previous year's financial statements were audited by another firm of chartered accountants who expressed an opinion without reservation on those statements in their report dated April 22, 1996.

Coopers & Lybrand

Chartered Accountants
Calgary, Alberta
March 4, 1997

Concrete Environmental Solutions Inc.

Consolidated Statement of Operations and Deficit
For the year ended December 31, 1996

	1996 \$	1995 \$
Revenue		
Interest	9,646	—
Other	<u>1,198</u>	<u>—</u>
	<u>10,844</u>	<u>—</u>
Expenses		
General and administrative expenses		
Salaries and benefits	188,072	—
Consulting fees	108,802	—
Advertising and promotion	90,200	—
Office	72,078	—
Professional fees	68,066	—
Technical assistance and licensing fees	49,000	—
Interest and bank charges	43,422	—
Repairs and maintenance	35,817	—
Travel	27,365	—
Rent	25,772	—
Management fees	17,000	—
Telephone	15,907	—
Automobile expense	6,764	—
Licenses, taxes and insurance	<u>4,450</u>	<u>—</u>
	<u>752,715</u>	<u>—</u>
Amortization		
Deferred development costs	211,921	—
Capital assets	21,018	—
Goodwill	<u>5,000</u>	<u>—</u>
	<u>237,939</u>	<u>—</u>
Loss from operations before the following	979,810	—
Loss on disposal of capital assets	2,893	—
Unrealized loss on short-term investments	5,113	—
Loss on sale of short-term investments	<u>37,528</u>	<u>—</u>
Net loss for the year and deficit – End of year	<u>1,025,344</u>	<u>—</u>
Net loss per share	<u>0.17</u>	<u>—</u>

Concrete Environmental Solutions Inc.

Consolidated Balance Sheet as at December 31, 1996

	1996 \$	1995 \$
Assets		
Current assets		
Cash and short-term deposits	718,809	21,119
Short-term investments, at quoted market value	57,730	10,455
Accounts receivable	25,014	1,038
Prepaid and other assets	53,714	23,842
	855,267	56,454
Capital assets (Note 4)	569,782	46,854
Technical assistance and licensing fees (Note 5)	150,000	–
Deferred development costs (Note 6)	423,843	155,019
Goodwill , net of amortization of \$5,000 (Note 3)	95,000	–
	<u>2,093,892</u>	<u>258,327</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	129,536	21,535
Current portion of long-term debt (Note 7)	53,847	6,877
	183,383	28,412
Convertible debentures (Note 8)	–	145,000
Long-term debt (Note 7)	<u>190,895</u>	<u>12,415</u>
	<u>374,278</u>	<u>185,827</u>
Shareholders' Equity		
Share capital (Note 9)	2,744,958	72,500
Deficit	<u>(1,025,344)</u>	<u>–</u>
	<u>1,719,614</u>	<u>72,500</u>
	<u><u>2,093,892</u></u>	<u><u>258,327</u></u>

Approved by the Board,

 , Director
 , Director

Concrete Environmental Solutions Inc.

Consolidated Statement of Changes in Financial Position
For the year ended December 31, 1996

	1996	1995
	\$	\$
Operating activities		
Net loss for the year	(1,025,344)	—
Items not affecting cash –		
Amortization of capital assets	21,018	—
Amortization of goodwill	5,000	—
Amortization of deferred development costs	211,921	—
Unrealized loss on short-term investments	5,113	—
Loss on sale of short-term investments	37,528	—
Loss on disposal of capital assets	2,893	—
	<hr/>	<hr/>
	(741,871)	—
Net decrease in non-cash working capital balances related to operations *	55,642	—
	<hr/>	<hr/>
	(686,229)	—
Financing activities		
Obligations under capital lease	45,450	19,292
Bank loan proceeds	180,000	—
Issuance of common shares	2,672,458	72,500
Advances to shareholders	—	(23,842)
Issuance (repayment) of convertible debentures	(145,000)	145,000
	<hr/>	<hr/>
	2,752,908	212,950
Investing activities		
Deferred development costs	(480,745)	(155,019)
Item not affecting cash –		
Amortization of capital assets included in deferred development costs	3,740	3,335
	<hr/>	<hr/>
	(477,005)	(151,684)
Purchase of investments	(297,753)	(10,455)
Net proceeds on sale of investments	207,837	—
Purchase of capital assets	(554,705)	(50,189)
Sale of capital assets	4,126	—
Technical and licensing fees	(150,000)	—
Reverse take-over acquisition (Note 3)	(101,489)	—
	<hr/>	<hr/>
	(1,368,989)	(212,328)
Net decrease in non-cash working capital balances related to investing activities	—	20,497
	<hr/>	<hr/>
	(1,368,989)	(191,831)
Increase in cash during the year	697,690	622
Cash – Beginning of year	21,119	—
Cash – End of year	718,809	622
Cash is comprised of:		
Cash	315,122	21,119
Short-term deposits	403,687	—
	<hr/>	<hr/>
	718,809	21,119

* Consists of changes in accounts receivable, prepaid and other assets, and accounts payable and accrued liabilities

Concrete Environmental Solutions Inc.

Notes to Consolidated Financial Statements
For the year ended December 31, 1996

1. Nature of operations and contingency

The Company was incorporated on November 27, 1995 under the Business Corporations Act (Alberta) as Flo Capital Inc. and changed its name to Concrete Environmental Solutions Inc. ("Concrete") on September 11, 1996. The Company is in the business of site remediation and hazardous waste treatment. During the year, the Company expended its efforts in acquiring certain assets, completing a demonstration project and market development. The recoverability of deferred development costs and licensing rights and assets is dependent on the Company's ability to secure remediation and waste treatment contracts and reach full commercial production.

2. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements include the results of the Company's wholly owned subsidiary, Shaw-Eurocan Environmental Inc., a private company acquired on September 18, 1996 (Note 3).

(b) Short-term investments

Short-term investments are valued at the lower of cost or quoted market value on the balance sheet date.

(c) Deferred development costs

Deferred development costs are amortized on a straight-line basis over 18 months commencing on July 1, 1996.

(d) Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives as follows:

Asset	Basis	Rate
Computer	Declining balance	30%
Office furniture	Declining balance	20%
Leasehold improvements	Straight-line	Term of lease
Plant and equipment	Unit of production	

(e) Goodwill

Goodwill is amortized on a straight-line basis over five years commencing from the date of acquisition. The carrying value of goodwill is periodically reviewed by the company and impairments are recognized in earnings from operations when the expected future operating cash flows derived from the acquired business are less than their carrying value.

(f) Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the year. The effect of dilution on loss per share is anti-dilutive. In 1996, the weighted average number of shares outstanding was 6,049,818.

Concrete Environmental Solutions Inc.

Notes to Consolidated Financial Statements
For the year ended December 31, 1996

3. Reverse take-over

Effective September 18, 1996, Concrete acquired all of the issued and outstanding common shares of Shaw-Eurocan Environmental Inc. ("Eurocan"). As consideration, Concrete issued 14,350,000 common shares and 2,050,000 common share purchase warrants of Concrete. In addition, 150,000 common shares were issued to an arm's length third party as payment of a \$30,000 finder's fee in connection with the introduction of Eurocan to Concrete and 775,000 warrants of Eurocan to acquire an equivalent number of Eurocan common shares were replaced with warrants for Concrete common shares carrying the same terms.

This transaction constituted Concrete's major transaction within the meaning of policy 4.11 of the ASC and has been accounted for as a reverse take-over of Concrete by Eurocan. Consequently, the historical financial information contained herein is that of Eurocan and does not include the results of Concrete prior to the date of acquisition. However, in accordance with the principals of reverse take-over accounting, the capital structure of the consolidated entity as at December 31, 1996 is that of Concrete.

The fair value of the net assets acquired by Eurocan are as follows:

	\$
Cash	225,659
Accounts receivable	1,489
Goodwill	<u>100,000</u>
Consideration given – common shares	327,148
Less: cash acquired	<u>225,659</u>
	<u>101,489</u>

The goodwill represents the value of the public company listing acquired as a result of the reverse take-over.

4. Capital assets

	1996		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office furniture and equipment	36,088	3,899	32,189
Computer equipment	40,562	3,042	37,520
Equipment under capital lease	81,335	17,479	63,856
Leasehold improvements	21,721	290	21,431
Machinery	<u>414,786</u>	<u>–</u>	<u>414,786</u>
	<u>594,492</u>	<u>24,710</u>	<u>569,782</u>

Concrete Environmental Solutions Inc.

Notes to Consolidated Financial Statements
For the year ended December 31, 1996

4. Capital assets (cont'd)

		1995	
	Cost \$	Accumulated amortization \$	Net \$
Office furniture and equipment	6,289	105	6,184
Equipment under capital lease	<u>23,900</u>	<u>3,230</u>	<u>20,670</u>
	30,189	3,335	26,854
Deposit on equipment purchase	<u>20,000</u>	<u>—</u>	<u>20,000</u>
	50,189	3,335	46,854

Pursuant to an Asset Purchase and Sale Agreement signed on February 14, 1996, Eurocan acquired certain assets and rights of Eurocan Treatment Systems Ltd., an arms-length party, for total consideration of \$400,000. The purchase price was comprised of \$200,000 in cash and the issuance of 400,000 Class A common shares of Eurocan valued at \$0.50 each. The cash portion included \$20,000 paid in 1995 as a non-refundable deposit and \$75,000 of short-term bank financing.

5. Technical assistance and licensing fees

On December 5, 1995, Eurocan signed a Technical Assistance and License Agreement with a subsidiary company of Heidelberger Zement whereby Eurocan agreed to pay a license fee of 2% of the total Eurocan's sales to a minimum of \$50,000 per year for the next five years. In 1996, Eurocan issued 800,000 Class A shares at \$0.25 each for a total value of \$200,000 as consideration for the up-front payment of the first four years minimum fees. The prepaid balance of \$150,000 at December 31, 1996 represents the prepayment of fees for 1997, 1998 and 1999 and will be amortized on a straight-line basis over the next three years.

In addition, on December 5, 1995, Eurocan entered into a License Agreement with Heidelberger Zement whereby, effective January 1, 1996, Eurocan will make minimum quarterly payments of \$12,000 over the duration of this five year agreement. The actual license fee payable is based on \$1.00 per metric tonne of material treated by Eurocan.

6. Deferred development costs

	1996 \$	1995 \$
Development costs	635,764	155,019
Amortization	<u>(211,921)</u>	<u>—</u>
	423,843	155,019

Concrete Environmental Solutions Inc.

Notes to Consolidated Financial Statements
For the year ended December 31, 1996

6. Deferred development costs (cont'd)

Until June 30, 1996, the Company was considered to be in the development stage with respect to developing its site remediation and hazardous waste treatment business as until this point, the Company had not commenced market development activities. All costs incurred prior to June 30, 1996 relating to the development of this business and expenses associated with the execution of technical assistance and licensing agreements, acquisition of assets and completion of remediation tests have been deferred.

7. Long-term debt

	1996	1995
	\$	\$
a) Business improvement loan bearing interest at prime plus 2% and repayable in monthly instalments of \$3,850 commencing April 1997 over five years. Security consists of a General Security Agreement and a \$45,000 personal guarantee given by the Company's President.	180,000	—
b) Obligations under capital lease at various interest rates ranging from 5% to 17% and secured by the associated assets.	<u>64,742</u>	<u>19,292</u>
Less: Amounts due within one year	<u>244,742</u>	<u>19,292</u>
	<u>53,847</u>	<u>6,877</u>
	<u><u>190,895</u></u>	<u><u>12,415</u></u>

Principal payments due in each of the next five years:

	\$
1997	53,847
1998	64,253
1999	49,218
2000	42,266
2001	<u>35,158</u>
	<u><u>244,742</u></u>

8. Convertible debentures

Pursuant to an offering memorandum dated October 27, 1995 (and subsequently amended on January 11, 1996), Eurocan received \$145,000 in respect of an issue of a 12% convertible subordinated debentures issue. The debentures were repayable by January 11, 1998 and convertible at the option of the holder into Class A voting common shares ("Common Shares") and Common Share purchase warrants ("Warrants") at the rate of one Common Share and one half of a Warrant for each \$0.20 of principal amount of Debenture. One Warrant entitled the holder thereof, upon exercise of the payment of \$0.50, to acquire one additional Common share for a period of six months from the date of the conversion of the Debenture.

In September, 1996, the debentures were converted into Common Shares and Warrants when Eurocan completed a reverse take-over described in Note 3 and the new entity became publicly traded. All Warrants were exercised in 1996.

Concrete Environmental Solutions Inc.

Notes to Consolidated Financial Statements
For the year ended December 31, 1996

9. Share capital

(a) Authorized –

- An unlimited number of Class A common voting shares
- An unlimited number of first preferred shares
- An unlimited number of second preferred shares

Common shares issued –

		1996
	Number of shares	Amount \$
Concrete		
Opening balance	2,015,000	297,148
Finders fee	150,000	30,000
Reverse take-over by Eurocan (Note 3) (See below)	14,350,000	1,975,350
Options exercised	168,300	33,660
Warrants exercised	<u>803,400</u>	<u>408,800</u>
Balance – December 31, 1996	<u>17,486,700</u>	<u>2,744,958</u>
		1995
	Number of shares	Amount \$
Eurocan (Before reverse take-over)		
Opening balance	–	–
Founders shares	8,265,000	40,350
Private placement	535,000	72,500
Less: Share subscription receivable	<u>–</u>	<u>(40,350)</u>
Balance – December 31, 1995	<u>8,800,000</u>	<u>72,500</u>
In exchange for assets and rights (Note 4)	400,000	200,000
In exchange for technical assistance and licensing agreement (Note 5)	800,000	200,000
Share subscription received	–	40,350
Conversion of debentures (Note 8)	3,000,000	600,000
Exercise of warrants (Note 8)	725,000	362,500
Private placement	<u>625,000</u>	<u>500,000</u>
Balance – September 18, 1996	<u>14,350,000</u>	<u>1,975,350</u>

(b) 1,000,000 common shares issued to the founders of Concrete are being held in escrow pursuant to an Escrow Agreement dated February 5, 1996. the escrowed securities will be released, upon the written consent of the Executive Director of the Alberta Securities Commission, as to one third on the first, second, and third anniversaries of the completion of the Major Transaction (Note 3).

Concrete Environmental Solutions Inc.

Notes to Consolidated Financial Statements
For the year ended December 31, 1996

9. Share capital (cont'd)

8,265,000 common shares issued to the founders of Eurocan are being held in escrow pursuant to an Escrow Agreement dated September 18, 1996. The Alberta Stock Exchange will consent to the release from escrow of one share for each \$0.20 of cash flow as defined by the Escrow Agreement and calculated on an annual basis to a maximum of one-third of the original number of shares held in escrow.

800,000 common shares issued to a subsidiary company of Heidelberger Zement (Note 5) are being held in escrow pursuant to an Escrow Agreement dated September 18, 1996. The escrowed securities will be released, upon the written consent of the Executive Director of the Alberta Securities commission, as to one third on the first, second and third anniversaries of the completion of the Major Transaction (Note 3).

- (c) The Company issued 2,050,000 common share purchase warrants as part of the consideration for the purchase of Eurocan. As at December 31, 1996, 2,021,600 warrants were outstanding to acquire an equivalent number of common shares at \$0.75 per share expiring September 17, 1997 and \$1.00 per share expiring September 17, 1998
- (d) During the year, the Company granted options to certain directors, officers, key employees and consultants. As at December 31, 1996, the following options were outstanding:

Number of options	Exercise Price (\$)	Expiry date
66,700	0.20	September 27, 1997
50,000	0.20	December 7, 1998
1,325,000	0.90	September 1, 1998
<u>230,000</u>	<u>0.94</u>	Various 1998 and 1999
<u>1,671,700</u>		

10. Related party transactions

- (a) As at December 31, 1995, Eurocan had made advances of \$23,842 to a company controlled by Eurocan's President. These advances were repaid in 1996.
- (b) During 1996, the Company paid management fees of \$68,000 (1995 - \$42,040) to a company controlled by the Company's President of which \$51,000 was capitalized to deferred development costs.
- (c) During 1996, consulting fees totalling \$21,300 (1995 - nil) were paid to a director's company.

Concrete Environmental Solutions Inc.

Notes to Consolidated Financial Statements
For the year ended December 31, 1996

11. Commitments

(a) The Company has the following annual commitments under office space and vehicle leases:

	\$
1997	80,853
1998	74,193
1999	50,128
2000	38,892

(b) As at December 31, 1996, the Company had commitments for renovations of office space totalling approximately \$139,000.

12. Income tax losses

The Company has non-capital losses of approximately \$1,386,000 available for carry forward against future taxable income which expire as follows:

	\$
2002	152,000
2003	<u>1,234,000</u>
	<u>1,386,000</u>

The company also has net capital losses of approximately \$27,000 which can be carried forward indefinitely to offset future net capital gains.

No benefits from these tax loss carryforwards have been recognized in these financial statements.

13. Financial instruments

The Company's financial instruments recognized in the balance sheet consist of cash and short-term deposits, marketable securities, accounts receivable, accounts payable and accrued liabilities and long-term debt.

The estimated fair value of long-term debt is not materially different from its carrying value. The fair values of all other financial instruments approximate their carrying values due to their short-term maturity.

14. Subsequent events

(a) On February 19, 1997 the Company issued an offering memorandum for up to \$2,000,000 of convertible redeemable debentures. The debentures bear interest at 7½% per annum, payable semi-annually on September 30, and March 31 during the term of the debentures. The debentures are convertible by the holder at the conversion rate of one common share for each \$1.25 of principal amount of debenture. Contingent on certain conditions with respect to the share price of the Company being met, the debentures are redeemable by the Company after July 31, 1997 and before September 30, 1998.

(b) In February 1997, the Company entered into a strategic operating alliance with Inland Construction Limited of Calgary.

CORPORATE INFORMATION

Directors

William J. Hogan
Chairman

Art Froese
President & Chief Executive Officer

Ronald R. Cripps
Chief Financial Officer

John W.G. Donahue Q.C.
Donahue, Powers, Wells

Eric M. Leslie
Merchant Equities Capital Corp.

Ronald V. Peiluck
Scope Environmental Services

Officers

Art Froese
President & Chief Executive Officer

Ronald R. Cripps
Chief Financial Officer

Kenneth A. Littlewood
Controller & Corporate Secretary

Dr. Fedor Khadem
Technical Consultant

Legal Counsel

MacKimmie Matthews
700, 401-9th Avenue S.W.
Calgary, Alberta T2P 2M2

Corporate Office

Suite 1900, 715-5th Ave. S.W.
Calgary, Alberta T2P 2X6
Tel: (403) 262-8581
Fax: (403) 262-6097

Registrar and Transfer Agent

The Montreal Trust Company
600, 530-8th Ave. S.W.
Calgary, Alberta T2P 3S8

Auditors

Coopers and Lybrand Limited
200, 255-5th Ave. S.W.
Calgary, Alberta T2P 3G6

Bank

Royal Bank of Canada

Stock Exchange Listing

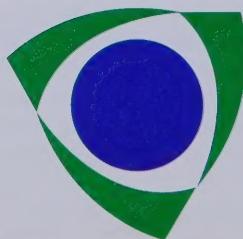
The Alberta Stock Exchange
Trading Symbol: **CVK**

Annual General Meeting

The Annual General Meeting for the shareholders of
CANCRETE™ Environmental Solutions Inc.
will be held on
Thursday, June 26, 1997
Lower Level Auditorium, Bankers Hall
at 3:00 p.m.

ABOUT THE NAME

The name has a three fold meaning. First, **CAN** stands for being a **Canadian** company, second the "**CRETE**" stands for **Depocrete™** and producing recycled **concrete** materials and third, the business of CANCRETE is **environmental solutions**



CANCRETE™
Environmental Solutions Inc.

ABOUT THE LOGO

The logo has a two fold meaning. First, it represents the **globe** surrounded by a universal **recycling symbol**. Second, it represents a contaminated waste **molecule** encapsulated by **Depocrete™ binder**.



CANCRETETM
Environmental Solutions Inc.

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